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Techtronic Industries Co. Ltd.
(Incorporated in Hong Kong with limited liability)

(Stock Code: 669)

**PROPOSED ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE
2009 CONVERTIBLE INTO ORDINARY SHARES OF
TECHTRONIC INDUSTRIES COMPANY LIMITED**

Joint Bookrunners and Global Coordinators



ABN·AMRO ROTHSCILD



HSBC 

The Hongkong and Shanghai Banking Corporation Limited

The Company announces that on 16 June 2004 the Company entered into the Subscription Agreement with the Lead Managers, pursuant to which the Lead Managers have agreed to subscribe for the Bonds to be issued at par by the Company in an aggregate principal amount of US\$140,000,000 (approximately HK\$1,091,678,000).

The Bonds will be issued by the Company to not less than six placees who are not related to the directors, chief executive or substantial shareholders of the Company and its subsidiaries and their respective associates as defined in the Listing Rules. The initial Conversion Price is HK\$16.56 per Share, representing a premium of 38.00% over the closing price of the Shares on the Stock Exchange on 16 June 2004. Assuming full conversion of the Bonds at the initial Conversion Price of HK\$16.56 per Share at the Fixed Rate, the Bonds will be convertible into approximately 65,922,584 Shares, representing approximately 4.94% of the issued share capital of the Company as at the date of this announcement and approximately 4.71% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated under certain circumstances. Please refer to the paragraph headed "THE SUBSCRIPTION AGREEMENT" below for further information.

As the Subscription Agreement may or may not complete, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

The Conversion Shares will be issued and allotted by the Company pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 28 May 2004.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

An application will be made for the listing of the Bonds on the Stock Exchange as selectively marketed securities.

Trading in Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 17 June 2004 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 a.m. on 18 June 2004.

THE SUBSCRIPTION AGREEMENT

Date: 16 June 2004
Parties: The Company
Mr. Pudwill and Mr. Chung
The Lead Managers

Subject to the fulfilment of the conditions set out below in the section headed "Conditions", the Lead Managers have agreed to subscribe or procure subscribers to subscribe for the Bonds with an initial aggregate principal amount of US\$140,000,000 (approximately HK\$1,091,678,000).

The Bonds will be offered outside the United States in reliance upon Regulation S of the US Securities Act and to professional investors in Hong Kong and elsewhere (other than the United States) but none of the Bonds will be offered to the public in Hong Kong nor will they be placed to any connected persons of the Company.

Placees

The Bonds will be issued by the Company to not less than six independent placees who are not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

Based on the current list of placees and the initial Conversion Price, the issue of the Bonds will not result in the introduction of any new substantial shareholders of the Company.

Undertaking

The Company has agreed in the Subscription Agreement that it will not, and each of Mr. Pudwill and Mr. Chung undertakes with the Lead Managers to procure that the Company

will not, for a period of 90 days after the Closing Date, without the prior written consent of the Lead Managers, issue, offer, lend, sell, contract to sell, pledge, grant an option to purchase or otherwise dispose of, any Shares (or any securities convertible or exchangeable for Shares), or enter into a transaction (including a derivative transaction) having an economic effect similar to that of a sale or enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of the Shares, whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise or publicly announce any intention to issue, offer, lend, sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of, any Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase Shares) or enter into any swap or similar agreement described above or deposit any Shares (or any securities convertible into or exchangeable for Shares) in any depository receipt facility, other than (i) Shares to be issued upon exercise of warrants to purchase or subscribe Shares, or upon conversion of securities convertible into Shares, in each case, outstanding on the date of the Subscription Agreement, (ii) Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase Shares) issued, offered, allotted, appropriated, modified or granted to employees (including directors) or former employees of the Company, its subsidiaries and/or associated companies or persons related to such employees (including directors) or former employees, directly or indirectly, pursuant to any employee share scheme or arrangement for any one or more employees generally or as required by law, and (iii) Shares (not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of its last annual general meeting) to be issued and allotted for consideration other than cash in connection with an acquisition of a company or a business by the Group pursuant to the general mandate granted to the directors at the annual general meeting of the Company held on 28 May 2004.

Each of the Mr. Pudwill and Mr. Chung has agreed in the Subscription Agreement that he will not, for a period of 90 days after the Closing Date, without the prior written consent of the Lead Managers, offer, lend, sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of, any Shares (or any securities convertible or exchangeable for Shares), or enter into a transaction (including a derivative transaction) having an economic effect similar to that of a sale or enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of the Shares, whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise or publicly announce any intention to offer, lend, sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of, any Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase Shares) or enter into any swap or similar agreement described above or deposit any Shares (or any securities convertible into or exchangeable for Shares) in any depository receipt facility.

Conditions Precedent of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon, among other things:

- (i) the execution of a trust deed constituting the Bonds and a paying and conversion agency agreement by all respective parties each in a form satisfactory to the Lead Managers and the Trustee; and
- (ii) the Stock Exchange having admitted to listing and not having revoked the listing of the Bonds on or before the Closing Date.

Termination

The Lead Managers may, by notice in writing to the Company given at any time prior to payment of the net subscription moneys for the Bonds on or before the Closing Date to the Company, terminate the Subscription Agreement if there shall have come to the notice of the Lead Managers any breach of, or any change rendering inaccurate in any respect, any of the warranties and representations contained in the Subscription Agreement.

The Lead Managers may also by notice in writing to the Company terminate the Subscription Agreement (but only in respect of Bonds which have not already been issued, subscribed and paid for at the time of termination) at any time before the Closing Date if,

- (i) in the opinion of the Lead Managers, (i) there shall have developed, occurred or come into effect any event, or series of events, beyond the reasonable control of the Lead Managers (including, without limitation, acts of governments, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war and acts of God or (ii) there shall have been any adverse change, or development (whether or not permanent) involving a prospective adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Group, whether or not arising in the ordinary course of business or (iii) there shall have occurred any change or any development (whether or not permanent) involving a prospective change or any crisis in local, national or international monetary, financial, economic, legal, taxation or political conditions (including, without limitation, conditions in the stock market, in the foreign exchange market, inter-bank market, money market and conditions with respect to interest rates in Hong Kong or otherwise) or foreign exchange controls in Hong Kong and overseas or any occurrence of a combination of any such changes or developments or crises or any deterioration of any such conditions, or (iv) any local, national or international occurrence, outbreak or escalation of hostilities whether war had been declared or not, or insurrection or armed conflict (whether or not involving financial markets), in each case which has resulted or is in the opinion of the Lead Managers likely to result in the conditions in the stock market in Hong Kong and/or stock markets overseas being adversely affected, or the success of the Bonds Issue being prejudiced, or it becoming impracticable, inadvisable, inexpedient or not commercially viable for the Bonds Issue to commence, be proceeded with or completed, or it becoming for any reason not commercially viable or otherwise contrary to or outside the usual commercial customs or practices in Hong Kong for the Lead Managers to observe or perform or be obliged to observe or perform the terms of the Subscription Agreement or the business, trading position, operations or prospects of the Group being adversely affected; or

- (ii) there shall have developed, occurred or come into force any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or any other similar event which the Lead Managers in its opinion has or is likely to have an adverse effect on the business, trading position, operation or prospects of the Group; or
- (iii) trading in shares or securities generally on the Stock Exchange shall have been suspended or limited or minimum prices shall have been established on the Stock Exchange; or
- (iv) a banking moratorium shall have been declared either by Hong Kong, United States federal or New York State authorities.

Subject to the foregoing, the Subscription Agreement is expected to be completed on the Closing Date and the Bonds are expected to be issued on the Closing Date.

Conversion

The initial Conversion Price at HK\$16.56 per Share represents (i) a premium of 38.00% to the closing price of the Shares quoted on the Stock Exchange on 16 June 2004 of HK\$12.00; (ii) a premium of 35.74% to the 5-day average closing price of the Shares over the 5 Trading Days up to and including 16 June 2004 of HK\$12.20; and (iii) a premium of 37.03% to the 10-day average closing price of the Shares over the 10 Trading Days up to and including 16 June 2004 of HK\$12.085.

The initial Conversion Price of HK\$16.56 per Share is negotiated between the Company and the Lead Managers on an arm's length basis and by reference to the market price of the Shares prior to suspension of trading of the Shares on the Stock Exchange on 16 June 2004.

The Conversion Shares will be issued and allotted by the Company pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 28 May 2004.

PRINCIPAL TERMS OF THE BONDS

The principal terms of the Bonds, which will be constituted by a trust deed to be entered into between the Company and the Trustee, are summarised as follows:

Principal Amount

The aggregate principal amount of the Bonds will be US\$140,000,000 (approximately HK\$1,091,678,000).

Issue Price

100% of the principal amount of the Bonds.

Interest

The Bonds bear zero interest.

Conversion Period

Bondholder(s) will, subject to the Company's right to elect to pay converting Bondholders cash in lieu of Shares, have the right to convert their Bonds into Shares at any time during the Conversion Period. No fractional Shares will be issued as a result of the conversion of the Bonds.

Conversion Price

The Bonds will be convertible into Shares at an initial Conversion Price of HK\$16.56 per Share at the Fixed Rate. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues, distributions and other dilutive events.

The Conversion Price shall not be reduced to below the par value of the Shares (currently HK\$0.10 per Share).

In lieu of delivery of some or all of the Shares required to be delivered upon the valid exercise of a Conversion Right, the Company may elect to make a cash settlement payment in respect of all or any portion of a Bondholder's Bonds deposited for conversion.

Ranking of Conversion Shares

Conversion Shares will rank pari passu in all respects with the Shares in issue on the relevant date of registration of holders of such Shares on the register of members of the Company.

Transfer

The Bonds will be transferable without restrictions. The Bondholders will be required to notify the Company of any transfer of the Bonds, which will change the names of the registered Bondholders. However, the transfers can be effected through Euroclear System and Clearstream Banking Societe Anonyme, which operate book entry transfer systems.

Maturity

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the conditions of the Bonds, the Company will redeem each Bond at 107.76% of its principal amount on the Maturity Date.

Redemption at the Option of the Bondholders

On or after 8 July 2007, the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds at 104.59% of their principal amount.

Redemption at the Option of the Company

On or at any time after 8 July 2007 and prior to the Maturity Date, the Company may redeem all or (save in the circumstances, described in sub-paragraph (ii) below, in which case all the Bonds must be redeemed) from time to time some only (being US\$1,000,000 in principal amount or integral multiples thereof) of the Bonds at the relevant Early Redemption Amount if:

- (i) the closing price of the Shares (as derived from the Daily Quotation Sheet of the Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange (as defined in the terms and conditions of the Bonds)), converted into US dollars at the Prevailing Rate, for each of the 30 consecutive Trading Days, the last day of such 30-day period falling within five Trading Days prior to the date upon which notice of such redemption is published, was at least 130% of the then prevailing Conversion Price translated into US dollars at the Fixed Rate on the relevant Trading Day, as determined by the Conversion Agent; or
- (ii) at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

Redemption for Taxation Reasons

The Company may redeem all, but not some only, of the Bonds at an Early Redemption Amount in the event of changes in or amendment to the laws and regulations regarding the Hong Kong taxation.

Redemption for Delisting or Change of Control

Each Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem all or some only of such Bondholder's Bonds at an Early Redemption Amount upon (i) the Shares ceasing to be listed or admitted to trading on the Stock Exchange; or (ii) the occurrence of a Change of Control with respect to the Company.

Form of the Bonds and Denomination

The Bonds will be in registered form and in denominations of US\$1,000 each or integral multiples thereof.

Ranking of the Bonds

The Bonds will constitute direct, unsubordinated, unconditional and (subject to the terms and conditions of the Bonds) unsecured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves.

Bondholders will not have any voting rights until and unless they have converted their Bonds into Shares.

Listing

Application will be made for the listing of the Bonds on the Stock Exchange as selectively marketed securities. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The Company has not raised any funds by means of equity in the past twelve months other than the Shares issued pursuant to the exercise of the options granted under the Company's share option schemes.

EFFECT ON THE SHARE CAPITAL OF THE COMPANY AS A RESULT OF CONVERSION

Based on the initial Conversion Price of HK\$16.56 per Share and assuming full conversion of the Bonds, the Bonds will be convertible into 65,922,584 Shares, representing approximately 4.94% of the issued share capital of the Company as at the date of this announcement and approximately 4.71% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The following table summarises the potential effects on the shareholding structure of the Company as a result of the Bonds Issue (by reference to current shareholdings):

| Shareholder | Existing (as at the date of this announcement) | | Assuming the Bonds are fully converted into Shares at the initial Conversion Price of HK\$16.56 each | |
|--|--|--|--|--|
| | No. of Shares | % of issued share capital of the Company | No. of Shares | % of enlarged share capital of the Company |
| Mr. Pudwill, Mr. Chung and their respective associates (<i>Note 1</i>) | 409,071,742 | 30.65% | 409,071,742 | 29.21% |
| Other Directors (<i>Note 2</i>) | 6,274,000 | 0.47% | 6,274,000 | 0.45% |
| Public Shareholders | 919,229,910 | 68.88% | 919,229,910 | 65.63% |
| Bondholders | — | — | 65,922,584 | 4.71% |
| Total | <u>1,334,575,652</u> | <u>100%</u> | <u>1,400,498,236</u> | <u>100%</u> |

Notes:

1. These Shares were held as to 71,974,000 by Mr. Pudwill, as to 760,000 Shares by Mr. Pudwill's spouse, as to 185,584,764 Shares by Sunning Inc. (a company wholly owned by Mr. Pudwill), as to 37,075,030 Shares by Cordless Industries Company Limited (a company owned as to 70% by Mr. Pudwill and as to 30% by Mr. Chung), as to 113,541,948 Shares by Mr. Chung and as to 136,000 Shares by Mr. Chung's spouse.
2. The other Directors comprise Mr. Patrick Kin Wah Chan, Mr. Frank Chi Chung Chan, Dr. Akio Urakami, Mr. Christopher Patrick Langley, Mr. Vincent Ting Kau Cheung and Mr. Joel Arthur Schleicher.

USE OF PROCEEDS

The estimated net proceeds from the issue of the Bonds (after deduction of commission and expenses) are approximately US\$136,550,000 (approximately HK\$1,064,775,935) and are presently intended to be used by the Company as to 50% for general corporate

requirements and as to 50% for working capital purposes including financing possible acquisitions should suitable opportunities arise in future. The Company has not entered into any agreement in relation to any such possible acquisitions nor has the Company committed itself to any exclusive negotiations with any third party which will lead to the conclusion of such agreement up to the date of this announcement.

REASONS FOR AND BENEFITS OF THE BONDS ISSUE

The Bonds Issue will raise immediate funds for the Company which can be used for general corporate and working capital purposes including financing possible acquisitions. The conversion of the Bonds into the Conversion Shares will enlarge the shareholder capital base of the Company and the Directors consider that this will facilitate the development and expansion of the Company. Taking into account that the Conversion Price represents a premium to the closing price of the Shares as quoted on the Stock Exchange on 16 June 2004, the Directors are of the view that the terms and conditions of the Bonds are fair and reasonable and are in the interest of the Group as a whole.

GENERAL

The Company will notify the Stock Exchange if it becomes aware of any dealings in the Bonds by any directors, chief executive and substantial shareholders of the Company or its subsidiaries or any of their respective associates.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated under certain circumstances. Please refer to the paragraph headed "THE SUBSCRIPTION AGREEMENT" above for further information.

As the Subscription Agreement may or may not complete, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Trading in Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 17 June 2004 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 a.m. on 18 June 2004.

As at the date of this announcement, the Board comprises five executive Directors, Mr. Horst Julius Pudwill (Chairman and Chief Executive Officer), Mr. Roy Chi Ping Chung (Group Managing Director), Mr. Patrick Kin Wah Chan, Mr. Frank Chi Chung Chan and Dr. Akio Urakami, and three independent non-executive Directors, Mr. Christopher Patrick Langley, Mr. Vincent Ting Kau Cheung and Mr. Joel Arthur Schleicher.

TERMS USED IN THIS ANNOUNCEMENT

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| “associate” | has the meaning ascribed to it under the Listing Rules; |
| “Board” | the board of directors of the Company; |
| “Bonds” | the Zero Coupon Convertible Bonds due 2009 in the aggregate principal amount of US\$140,000,000 (approximately HK\$1,091,678,000); |
| “Bondholder(s)” | holder(s) of the Bonds from time to time; |
| “Bonds Issue” | the subscription and issue of the Bonds with the aggregate principal amount of US\$140,000,000 (approximately HK\$1,091,678,000) under the Subscription Agreement; |
| “Change of Control” | occurs when, (i) any person or persons (as defined in the terms and conditions of the Bonds) (other than one or more of the Existing Major Shareholders) acting together acquires directly or indirectly a percentage of the voting rights of the issued share capital of the Company that exceeds such percentage then held by the Existing Major Shareholders collectively; or (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons (as defined in the terms and conditions of the Bonds) acquiring control over the Company or the successor entity; |
| “Closing Date” | the date (expected to be on 8 July 2004 or such other date as the Company and the Lead Managers may agree) on which the Bonds are issued; |
| “Company” | Techtronic Industries Company Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange; |
| “connected persons” | the meaning ascribed to that term in the Listing Rules; |
| “Conversion Period” | on or after 7 August 2004 up to and including the close of business (at the place where the certificate evidencing such Bonds are deposited for conversion) on 30 June 2009 or, if such Bond shall have been called for redemption under Condition 8(B) or 8(C) of the Bonds before the Maturity Date, then up to the close of business (at the place aforesaid) on the date no later than seven business days (at the place aforesaid) prior to the date fixed for redemption thereof; |

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| “Conversion Price” | the price per Share at which the Bonds may be converted into Shares; |
| “Conversion Shares” | Shares to be allotted and issued by the Company upon conversion of the Bonds; |
| “Directors” | directors of the Company; |
| “Early Redemption Amount” | <p>in respect of each Bond, the amount rounded up to the nearest US cent, determined as follow:</p> $\text{US\$1,000} \times 7.758\% \times \frac{A}{1,800}$ <p>where, A is the actual number of days calculated on the basis of a year of 360 days consisting of 12 months of 30 days each from, and including the Closing Date to, but excluding, the date on which the Bonds are redeemed or, as the case may be, become due and payable in accordance with the terms and conditions of the Bonds,</p> |
| “Existing Major Shareholders” | each of Mr. Pudwill and Mr. Chung and any trusts established for the benefit of them and their immediate family members (“related trusts”) and/or companies controlled by them, their immediate family members or related trusts and such companies’ direct or indirect subsidiaries; |
| “Fixed Rate” | the fixed rate of US\$1.00 = HK\$7.7977; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Lead Managers” | ABN AMRO Bank N.V. (Hong Kong Branch) and NM Rothschild & Sons (Hong Kong) Limited, each trading as ABN AMRO Rothschild and The Hongkong and Shanghai Banking Corporation Limited; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Maturity Date” | the date (expected to be on 8 July 2009, or such other date as the Company and the Lead Managers may agree) on which the Bonds mature; |
| “Mr. Chung” | Mr. Roy Chi Ping Chung, Group Managing Director; |

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| “Mr. Pudwill” | Mr. Horst Julius Pudwill, Chairman and Chief Executive Officer; |
| “Prevailing Rate” | the bid rate for exchanging US\$ and HK\$ shown on the Reuters “HKD=” page at or about 11:00 a.m. (Hong Kong time) on that date, if no such rate as appearing on the Reuters “HKD=” page, The Hongkong and Shanghai Banking Corporation Limited’s rate at such time (or the rate of such other bank as is selected by the Company and approved by the Trustee at such time); |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company; |
| “Shareholder(s)” | holder(s) of Shares; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Subscription Agreement” | the conditional subscription agreement entered into between the Company and the Lead Managers on 16 June 2004; |
| “Trading Day” | a day on which the Stock Exchange is open for dealing business; |
| “Trustee” | The Bank of New York; |
| “United States or US” | the United States of America, its territories and possessions, any State of the United States, and the District of Columbia; |
| “US\$” | US dollars, the lawful currency of the US*; and |
| % | per cent. |

* Unless otherwise specified, terms expressed in US\$ herein have been translated into HK\$ at the rate of US\$1 = HK\$7.7977.

By order of the Board of
Techtronic Industries Company Limited
Chi Chung Chan
Company Secretary

Hong Kong, 17 June 2004

Please also refer to the published version of this announcement in South China Morning Post and Hong Kong Economic Times.